

## **Cost Allocation Plan**

### **Purpose**

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, grants, contracts and agreements.

OMB Circular A-122, "Cost Principles for Non-Profit Organizations," establishes the principles for determining costs of grants, contracts and other agreements with the Federal Government. These principles also apply, by reference, to certain contracts. Special Mobility Services' Cost Allocation Plan is based on the Direct Allocation method described in OMB Circular A-122. The Direct Allocation Method treats all costs as direct costs except general administration and general expenses.

Direct costs are those that can be identified specifically with a particular contract or program. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular contract or program.

Only costs that are allowable, in accordance with the cost principles, will be allocated to programs or contracts.

### **General Approach**

The general approach of Special Mobility Services in allocating costs to particular grants and contracts is as follows:

- A. All allowable direct costs are charged directly to programs, grants, contracts, etc.
- B. Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
- C. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs, grants, etc. using a base that results in an equitable distribution.

## **ALLOCATION OF COSTS**

The following information summarizes the procedures that will be used by Special Mobility Services beginning July 1, 2006:

- A. Personnel. Documented with timesheets showing time distribution for all employees and allocated based on time spent on each program, salaries and wages are charged directly to the program for which work has been done. Personnel costs that benefit more than one program will be allocated to those programs based on time studies for management and dispatch positions and on vehicle usage (mileage) for the Mechanic (see Examples 1 and 2).
  - 1. Fringe benefits (FICA and Worker's Compensation) are allocated in the same manner as salaries and wages. Health insurance, dental insurance, and other fringe benefits are also allocated in the same manner as salaries and wages.
  - 2. Vacation pay is accrued as earned and is allocated in the same manner as salaries and wages.
- B. Vehicle-related costs (including fuel, vehicle parts, vehicle supplies, shop supplies, etc). Allocated directly to the program for which the cost was incurred, if identifiable. Vehicle costs that benefit more than one program will be allocated to those programs based on the ratio of each program's vehicle miles to the involved programs' total vehicle miles. (See examples 1 and 2).
- C. Insurance. Vehicle insurance costs are tied directly to each vehicle and charged to the appropriate program. Other insurance needed for a particular program is charged directly to the program requiring the coverage. Insurance costs that benefit all programs are allocated as part of the indirect cost rate.
- D. Rent, Utilities and Office Supplies (including telephone and postage). Allocated based on usage. Expenses used for a specific program will be charged directly to that program. Postage and telephone expenses are charged directly to programs to the extent possible. Where vehicle operations programs have a dedicated facility, and more than one vehicle operations program is operated from that facility; costs that benefit more than one program will be allocated to those programs based on the ratio of each program's number of vehicles to the total of the involved programs' vehicles (see Example 3).

- E. **Equipment.** Special Mobility Services depreciates equipment when the initial acquisition cost exceeds \$2,500 and it has a useful life of over one year. Items below \$2,500 are reflected in the supplies category and expensed in the current year. Unless disallowed by the awarding agency, equipment purchases funded solely through SMS funds are recovered through depreciation and are charged directly to the program using the equipment. If SMS-funded equipment is fully depreciated, “use fees” may be negotiated at a rate up to 6 2/3 percent of the cost of SMS-funded equipment. If the equipment is used in more than one program, the use fee will be charged based on the ratio of each program’s vehicle miles to total miles driven. Neither depreciation nor use fees are charged to grants if the equipment was purchased using federal funds.
- F. **Other Costs** (including travel, training, professional services, dues, licenses, fees, etc.) – Where possible, costs are allocated directly to the program generating the cost. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program’s number of vehicles to the total of the involved programs’ vehicles (see Examples 3 and 4). In cases where allocating costs on the basis of the number of vehicles is not appropriate, joint costs will be allocated on a basis determined to be appropriate to the particular costs.
- G. **Unallowable Costs.** Costs that are unallowable in accordance with OMB Circular A-122, include alcoholic beverages, contributions, fines, and penalties.

## Examples of Allocation Methodology

### Example 1

Expense Amount = \$5,000

Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program’s vehicle miles to the total of the involved programs’ total number of vehicle miles, as follows:

<b>Grant</b>	<b>Mileage</b>	<b>%</b>	<b>Amount Allocated</b>
A	20,000 miles	20%	\$1,000
C	30,000 miles	30%	\$1,500
E	50,000 miles	50%	\$2,500
<b>Total</b>	<b>100,000 miles</b>	<b>100%</b>	<b>\$5,000</b>

### Example 2

Expense Amount = \$10,000

Costs that benefit **all** programs are allocated based on a ratio of each program's vehicle miles to total vehicle miles, as follows:

Grant	Mileage	%	Amount Allocated
A	20,000 miles	13%	\$1,300
B	10,000 miles	7%	\$ 700
C	30,000 miles	20%	\$2,000
D	40,000 miles	27%	\$2,700
E	50,000 miles	33%	\$3,300
Total	150,000 miles	100%	\$10,000

### Example 3

Expense Amount = \$4,000

Costs that benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program's number of vehicles to the total of the involved programs' number of vehicles, as follows:

Grant	Number of Vehicles	%	Amount Allocated
A	12 vehicles	30%	\$1,200
C	13 vehicles	33%	\$1,320
E	15 vehicles	37%	\$1,480
Total	40 vehicles	100%	\$4,000

### Example 4

Expense Amount = \$8,000

Costs that benefit **all** programs will be allocated based on a ratio of each program's salaries to total salaries as follows:

Grant	Number of Vehicles	%	Amount Allocated
A	12 vehicles	18%	\$1,440
B	11 vehicles	17%	\$1,360
C	13 vehicles	20%	\$1,600
D	14 vehicles	22%	\$1,760
E	15 vehicles	23%	\$1,840
Total	65 vehicles	100%	\$8,000

## Indirect Costs

Special Mobility Services treats those allowable expenses that cannot be allocated directly to programs (grants or contracts) as indirect costs. The allocation base for the indirect cost rate is wages only. Indirect costs include general and administrative costs, such as administrative overhead and salaries. These costs are allocated based on the ratio of the total of program wages only to total administrative costs. This percentage is then applied to each program's total direct costs.

For example, if wage costs total \$555,000 and total administrative costs equal \$115,000, the indirect cost ratio would be 20.7 percent. Each program is allocated 20.7% (indirect cost rate) of its direct expenses.

Program	Program Wage Costs	20.7% of Direct Costs
A	\$41,000	\$8,495
B	\$103,000	\$21,342
C	\$411,000	\$85,163
Total	\$555,000	\$115,000